



UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

COMPTROLLER

APR 1 2004

The Honorable Duncan Hunter  
Chairman, Committee on Armed Services  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Mr. Chairman:

In accordance with statute, I am notifying you of the Department's intent to transfer \$6.8 million of Air Force family housing construction and improvement funds into the Department of Defense Family Housing Improvement Fund. Of this amount, \$6.1 million will finance a family housing privatization project at Little Rock Air Force Base, Arkansas. The remaining \$.700 million will be used to finance future Air Force privatization projects.

A description of the proposed project is enclosed. Representatives of the Air Force are available to provide any additional information you or your staff may desire.

A similar letter is being sent to the Chairmen and Ranking Members of the other congressional defense committees.

Sincerely,

A handwritten signature in black ink, appearing to read "Dov S. Zakheim", is written over a horizontal line.

Dov S. Zakheim

Enclosure:  
As stated

cc: The Honorable Ike Skelton  
Ranking Member

## MILITARY HOUSING PRIVATIZATION INITIATIVE AIR FORCE PROJECT SUMMARY

### INSTALLATION:

Little Rock AFB, Arkansas

### SCOPE:

The project involves a real estate transaction with the Successful Offeror (SO) under which the government will convey the entire inventory of 1,535 existing housing units and certain associated improvements, and lease approximately 428 acres of land. In exchange, the SO shall plan, design, develop, renovate, demolish, construct, own, operate, maintain, and manage a rental housing development, including all paving and drainage, as well as any utilities conveyed or constructed by the developer, for a minimum of 1,200 military family housing units for 50 years. The project shall consist of 594 existing units with major renovations, 334 existing units with minor renovations, demolish 607 units, and replace 272 housing units for a total of 1,200 units. The privatized units shall be designated for occupancy for E-1 through O-7. Housing and rents shall not exceed the Basic Allowance for Housing (BAH) at the dependent rate for the designated military pay grade, minus an amount sufficient to cover 110% of average estimated utility costs.

The lease will require the SO to demolish 607 units (335 of which are surplus) within 84 months and construct 272 units within 72 months of award. All 594 units will receive whole house renovations, and 334 will receive minor renovations within 72 months. The SO will finance, plan, design and construct improvements, as well as own and operate the rental housing development for 1,200 military families for 50 years. The project will result in a privatized end state of 1,200 housing units.

The Air Force competitively solicited for the project and selected a developer on November 14, 2003. The total development cost will be \$111.5 million. The government will provide a \$24.5 million direct second mortgage loan. Offerors shall utilize their equity contribution and private sector commercial loan proceeds before using a Government direct loan in project financing.

The agreement will provide service members the opportunity to occupy quality housing that is safe and affordable. Their rent and utility costs will not exceed the members Basic Allowance for Housing (BAH) under this transaction. The rental units will be made available to Air Force families on a preferential basis. Occupancy guidelines are outlined in detail in the solicitation.

No Army and Air Force Exchange Service (AAFES) or Defense Commissary Agency (DeCA) or Moral Welfare Recreation (MWR) Services activities will be affected by this privatization initiative and the land lease will preclude the SO from having any revenue generating activities that compete with AAFES, DECA, or MWR/Services.

### **AUTHORIZATION:**

**10 U.S.C. Section 2873, Direct loans and loan guarantees.** The government will provide a direct second mortgage loan to the SO.

**10 U.S.C. Section 2878, Conveyance or lease of existing property and facilities.** Housing units will be conveyed and land will be leased to the SO as part of the project.

**10 U.S.C. Section 2880, Unit size and type.** The housing to be renovated and constructed as part of this project will be similar to that found in the local community.

**10 U.S.C. Section 2881, Ancillary supporting facilities.** No conflict with AAFES, DeCA or non-appropriated fund activities. Ancillary facilities will include a community center, with an indoor lounge, community rooms, common kitchen, business center, pool complex, and exercise club; playgrounds; athletic fields, bus shelters; and a jogging trail/bike path.

**10 U.S.C. Section 2882, Assignment of members of the armed forces to housing units.** Military members will pay BAH minus an allowance for utilities to the SO by allotment.

### **JUSTIFICATION:**

This project will provide military families access to safe, quality, affordable housing. The existing housing is inadequate and requires a major renovation and must be completely remodeled to meet, as a minimum, the current AF Housing standard. The SO is given the option to replace these units if more feasible.

### **FUNDS REQUIRED:**

The budget scoring analysis indicates a projected credit subsidy or scored cost of \$6.1 million since the developer's proforma indicated a need for a direct loan.

### **SOURCE OF FUNDS:**

The Air Force will transfer a total of \$6.8 million into the FHIF. Of this amount \$6.1 million will be used to fund the Little Rock AFB project. The remaining \$700 thousand will be used to finance a future Air Force privatization project. The FY 2001 Travis AFB funds are available from actual contract savings. The FY 2001 Little Rock AFB funds were originally appropriated for privatization. The FY 2000 Little Rock AFB funds were originally appropriated for a family housing improvement project but this requirement will now be met through privatization.

<b><u>Fiscal Year</u></b>	<b><u>Description</u></b>	<b><u>Amount</u></b>
FY 2000	Family Housing Improvement, Little Rock AFB	\$3,994,000
FY 2001	Family Housing Improvement, Little Rock AFB	\$ 993,000
FY 2001	Family Housing Construction, Travis AFB	<u>\$1,813,000</u>
		\$6,800,000